Chicago Tribune BUSINESS

Rushingin



to rent out



ALEXANDER HELBACH/TRIBUNE ILLUSTRATION

By Mary Ellen Podmolik Tribune reporter

The foreclosed home on Kenmore Street in Aurora was an outdated, unkempt eyesore until crews arrived this fall, performing thousands of dollars of work to make it attractive and modern, inside and out.

But it wasn't until workers walked across the street to ask for some water that neighbors Mario Cervantes and Oralia Balderas-Cervantes learned that a corporation, not a consumer, had bought the house, intending to turn it into a rental property. Despite being landlords themselves, the couple aren't sure they like the idea.

"If it's going to be a company that is

Communities wonder if out-of-town private equity funds will be good neighbors

watching out for the community, yes," Cervantes said. "If it's going to be a company that is watching out for themselves, no."

Added Balderas-Cervantes: "I'd rather see a homeowner. A lot of renters don't care. It's like renting a car

versus buying a car. It's different." Similar scenarios and concerns are unfolding across Chicago and in other markets hard-hit by the housing crisis. Well-capitalized, out-of-town private equity funds are scouring neighborhoods, paying cash for distressed single-family homes and renting them out. The opportunities are plentiful, enabling investment groups to profit

from low home prices, rising rents and

an increase in the number of potential

The transactions are returning vacant properties to active use. But they also are stoking fears among neighbors and municipalities about the long-term effect of large, private investors including many that are operating under the radar — in their communi-

"This scares the hell out of me," said Ed Jacob, executive director of Neighborhood Housing Services of Chicago Inc. "In this rush to say this is a new asset class, are we creating the next community development problem?

"You talk to them and it's all about

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Local case influenced **BP** criminal liability

In 1985, prosecutor tried 3 film plant execs for murder

BY AMEET SACHDEV Tribune reporter

Jay Magnuson stopped by the Sangamon County state's attorney's office in Springfield on Thursday, and several of his former colleagues rushed up to

They all thought of Magnuson after British oil giant BP on Thursday agreed to plead guilty to criminal charges in the 2010 deaths of 11 crew members aboard the Deepwater Horizon oil rig in the Gulf of Mexico.

Magnuson is famous in workplace safety circles. As a Cook County prosecutor in 1985, he tried three executives of Film Recovery Systems Inc. for murder in the death of a plant employee. The case garnered national attention and strongly influenced workplace safety regulations.

It also was a seminal case in the evolution of corporate crime. Up until then, business prosecutions generally involved fraud or other financial wrongdoing. Now disregard for safety and health hazards in the workplace could subject corporations to criminal

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Oil giant BP on Thursday agreed to plead guilty to criminal charges in the 2010 deaths of 11 crew members aboard the Deepwater Horizon oil rig

TV exec a good fit for Tribune Co., peers say

By Robert Channick

Tribune reporter

Tribune Co. has always been based in Chicago, but the allure of Hollywood has

never seemed stronger. While the company's heritage is tied to newspapers, the lion's share of its value today is connected to its ownership of television stations. That's why it's not surprising the company's next CEO is

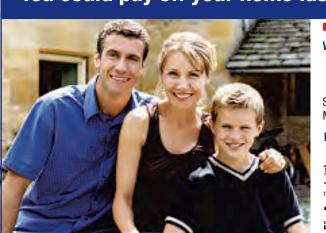
expected to come from the broadcasting and entertainment

According to sources familiar with the situation, the new owners set to take control of Tribune Co. when it emerges from bankruptcy protection are planning to name television executive Peter Liguori as the company's chief

Liguori is a former top TV executive at Fox and Discovery. A decision to name him CEO would end months of speculation and usher in a new era for the media giant,

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FOCUS REAL ESTATE

"I'd rather see a homeowner. A lot of renters don't care. It's like renting a car versus buying a car. It's different." — Oralia Balderas-Cervantes

Investors rushing in to rent out

Continued from Page 1

neighborhood recovery. They all have the narrative down."

In April, housing research firm CoreLogic named the Chicago area one of the better housing markets for institutional investor funds. It cited the area's large number of foreclosures, which will increase the number of vacant homes, and the estimated rental income relative to the low cost of acquisition.

The general strategy of the companies is the same: buy low, make the necessary upgrades, fill them with tenants and then sell the homes in three to seven years. With companies and analysts anticipating projected returns of at least 8 percent, there also is talk of creating publicly traded real estate investment trusts.

"What this reminds me of is the dot-com boom," said Rick Sharga, executive vice president of Carrington Mortgage Holdings LLC, a California firm whose asset management arm is actively looking in the Chicago market. "That's what this feels like. Every investor in America wants to buy foreclosures and turn them into rentals."

Two statistics increasing that appetite are the homeownership rate and rental rates. Foreclosures, tight lending conditions and wary consumers have pushed down the nation's homeownership rate to 65.5 percent at the end of September, according to census data. Meanwhile, the percentage of vacant rental units has been on a steady decline since 2010 as more people opt for leases rather than mortgages.

Tighter inventories are pushing up rents. As of October, annualized rents in Chicago were up 7.7 percent, more than the national increase of 5.1 percent, online real estate site Trulia found.

flocking to all neighborhoods equally. Most want homes in desirable neigh-

But investors aren't

borhoods with strong area employment. They also look at the strength of local rules protecting landlords in disputes with tenants. After vetting the tenant

and securing a lease, property managers say they routinely drive by the homes and sometimes schedule inside inspections to protect their investment.

Risk vs. reward

It remains to be seen whether their expectations will be met. One problem with the business model is there's no performance track record to speak of. And as housing prices slowly recover, acquisition costs also will increase and cut into returns.

There also isn't any history on property management firms tasked with overseeing so many scattered-site rental properties. Any well-publicized mistakes involving poorly maintained properties or wronged tenants could taint investors' reputations.

That's one reason why big-name players are likely to avoid buying in neighborhoods where they fear a greater chance of eviction proceedings occurring.

"You make one mistake in those properties and you'll be toast," Sharga said.

While some funds have outlined plans for foreclosure-to-rental conversions, it's impossible to easily quantify the purchases. For one thing, purchasers have formed various corporate entities to do the deals. In other cases, there's uncertainty about whether investors plan to resell the homes immediately or rent them and outsource property management to other firms.

An early leader in the sector, and one of the first of the larger firms to make significant inroads in Chi-



SCOTT STRAZZANTE/TRIBUNE PHOTO

that private equity funds are

underestimating the costs

associated with the busi-

ness. Unlike other active

foreclosure-to-rental mar-

kets such as Phoenix, Las

Vegas and parts of Florida

and California, much of the

housing stock in Chicago is

older. Seasonal factors like snow also may slow a com-

"There are a thousand

steps in between buying it

and generating an 8 percent return, said Eric Workman,

vice president of sales and

marketing at Mack Cos., a

Tinley Park firm that has

been turning distressed

homes into rentals for 15

well on paper and then you

throw an asset with a mil-

lion moving parts and peo-

ple into it and you have the

opportunity for things to go well or things to go really

bad. For a company to just raise \$500 million and say

we can make it work is just

Mack has been ap-

proached by several institu-

tional investors seeking to partner with it, and those

discussions continue,

mains in litigation with a

lender, FirstMerit Bank,

which alleges that Mack

failed to pay the required

Cook County property

more than 107,000 fore-

closed properties in its port-

folio in September, recently

completed bulk sales to

investors of equity interests

in almost 2,000 foreclo-

sures, most of which were

cluded 94 properties in the

Chicago market that were sold to The Cogsville Group

LLC, a firm looking for

additional residential in-

Fannie's vacant properties

are sold to noninvestors.

Fannie Mae President and

CEO Timothy Mayopoulos

said he prefers to sell the

agency's homes to owner-

occupants, only in part be-

cause investors demand

About 60 percent of

vestment opportunities.

The transactions in-

occupied by tenants.

Fannie Mae, which held

taxes on 65 homes.

Meanwhile, Mack re-

The model works so

pany's progress.

vears.

asinine."

Workman said.

Leslie Mendoza, 8, uses a laptop as her father, Felipe Mendoza, right, and his nephew Aaron Carrillo and Carrillo's 9-month-old son, Jayden, gather in the kitchen of the Aurora house rented by the Mendoza family. The residence is a former foreclosure.



Oralia and Mario Cervantes, of Aurora, stand in front of a house that a corporation has converted to a rental property across the street from their home.

cago, is Waypoint Real Estate Group LLC, which recently secured more than \$300 million in financing from Citigroup to expand its national portfolio. Since July, Waypoint has paid cash for almost 90 homes in the far western and southwestern suburbs, 40 in October alone, and it hopes to quicken its pace to as many as 100 homes a month.

Unlike other companies, Oakland, Calif.-based Waypoint is handling the purchase, rehab, renting and management of homes internally. It has established a Chicago office to oversee its local operations and its expansion into other Midwestern cities.

"We're providing an answer to what has been a challenging period of time," said Charles Young, Waypoint's regional director.

By design, its portfolio includes homes of various sizes in different types of neighborhoods, with rents running from \$1,250 to \$2,600 a month. On average, it invests \$20,000 in property improvements; much of that work is done in the kitchens and bathrooms. It likes two-year leases because it finds the occupants act more like

owners than renters. In fact, Waypoint tries not to use the word "renters" because it argues the term has negative connotations. "We call them 'resi-

find ourselves trying to

change that perspective."

Felipe and Mily Mendoza and their family have been renters since losing their home to foreclosure in 1998. Five weeks ago, they moved into a Waypoint home in Aurora close to an elementary school. It's a home with updated bathrooms and a spacious kitchen that easily accommodates the large oval table for their extended family.

Felipe Mendoza doesn't mind the \$1,575 monthly rent because the home is in much better shape than their last rental, and he likes the two-year lease. He's also participating in a Waypoint program that rewards him with points for taking care of the property, paying the rent on time and repairing any credit problems.

At the end of the two years, accumulated points are credited toward a purchase of the home, something Mendoza would like to do, now that he's gotten to know the neighbors. "Everybody told me, 'We hope you keep the home," he said.

Carla Gregg lives next door to a home Waypoint recently purchased in a different Aurora neighborhood, a 4-bedroom, 21/2-bath property that will rent for more than \$2,200 a month. Another renovated Waypoint home is for rent a

ing end of some people's

few doors away in the other direction. dents," Young said. "We She's been on the receivnegative perceptions of renters. When she and her husband moved into the subdivision 15 years ago, they rented a home on another street and didn't feel welcomed by neighbors. As a homeowner now, she thinks "renter" is taking on a more positive connota-

"The majority of people understand that with the economy, this is the way it's going to be," Gregg said. People would rather have residents than vacant homes, for security rea-

Cities scramble

That's a sentiment shared by the Chicago Metropolitan Agency for Planning, which has been working with communities grappling with how to address an influx of rental properties. Such oversight is difficult for strapped local governments. In addition to private equity funds and mom and pop investors, individual homeowners are renting their homes because they're unable to sell

"It's not a question right now of owner versus renter," said Andrew Williams-Clark, principal planner at the agency. "Right now the economy is going to decide

that. Right now the ques-

tion is occupied versus va-

cant. The best thing you can

do is make sure that who-

ever is occupying it is keep-

ing (it up)." Many municipalities put the onus on owners to come forward and identify themselves as landlords and be subject to rental ordinances that have been expanded, some very recently, to include single-family proper-

Woodridge, for instance, in July adopted a new residential rental program that requires owners of singlefamily rental homes to register with the village. They or their property management company must attend a seminar on crime-free housing.

"We have no problem with somebody out of state owning property," said Carol Berman, deputy building commissioner, administration, with the village. "But we do care that they have somebody here that is responsible that we can contact 24 hours a day. The whole idea behind this is to protect the character and stability of the residential neighborhood. We want to make sure nothing happens that adversely impacts

There also are concerns

that."

correctly."

be afraid of the investor. This is a win-win if it's done

Southwest suburban

After a year of consideration, a new ordinance takes effect Jan. 1 in Buffalo Grove that also will require all rental properties to be registered. Single-family homes, town homes and condos that are turned into rental properties will be inspected annually.

> greater purchase discounts. "We think that's better for neighborhoods long term," he said. "We very much want to favor people who live in these communi-Carrington's Sharga understands the concerns but offers a caveat: "Don't

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